Trade Developments

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Developing Countries and Textiles and Apparel Trade

Heightened Competition Having an Impact

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Global quotas on trade in textiles and apparel ended January 1, 2005. They had existed for many decades under the world's Multi-Fiber Arrangement, but were phased out over ten years, starting in 1995, under the World Trade Organization's (WTO) Agreement on Textiles and Clothing.

During this transition period, the value of world textile and apparel trade rose by 50 percent. At the same time, China's share of textile and apparel exports increased markedly, from 13 percent of world trade value in 1994 to 20 percent in 2003, according to the WTO.

China achieved these dramatic gains in spite of the continuation of quotas on many of its textile and apparel exports. Now, with those quotas lifted, China's share of the U.S. and EU markets is widely expected to surge, causing significant dislocations for other apparel-producing developing countries. Under the previous quota regime, industries moved from country to country in search of competitive platforms from which to manufacture and supply their clients. These industries contributed significantly to growth in many developing countries, a number of which came to depend on apparel exports for a majority of their merchandise exports–as much as 90 percent in some countries.[1]

How has the end of quotas affected U.S. trade in the first quarter of 2005? How has it affected prospects for developing country suppliers?

Imports from China Surge in the First Quarter of 2005

The world's largest textile and apparel markets are the European Union and the United States. Together they account for half of global imports, with EU and U.S. imports roughly equal.[2] EU and U.S. statistics for early 2005 have been released,[3] and reveal some worrisome developments.

In late April, press reports of preliminary EU data showed a dramatic surge in imports across a broad range of textiles and apparel made in China. Data for the first quarter of 2005 show especially steep increases in the volume of imports from China in seven apparel categories, all of which also posted sharp declines in unit prices. Dramatic increases in two categories of textiles were also reported, although not accompanied by price declines. China's share of EU–25 imports in each of these nine categories rose dramatically (see Table 1.)

Table 1

Provisional EU Data on Selected Categories of Imports from China

	1st Q 2005/1st Q 2004		China Market Share in EU-25 Imports	
	Volumes (%)	Price (%)	1 Q 2004 (%)	1 Q 2005 (%)
T-shirts	164	-26	7	17
Pullovers	534	-47	6	38
Men's trousers	413	-16	6	35
Blouses	186	-24	6	22
Women's coats	184	-18	6	10
Bras	139	-15	30	49
Socks and pantyhose	63	-22	30	54
Linen and ramie yarns	51	1	27	45
Linen fabrics	257	1	10	45

Note: Market share excludes intra-EU trade.

SOURCE: Euratex based on EU Commission contacts.

During the first two months of 2005, the United States imported $10.9 billion of apparel, a 14-percent increase over the same two-month period in 2004. Preliminary import data from the first quarter of 2005 indicate that apparel imports from China have risen by more than 60 percent compared with the same period last year. Changes in product categories that comprise the bulk of the apparel exports from many smaller developing countries have been even more dramatic. For example, U.S. import volumes of cotton trousers and knit shirts from China rose more than 1,000 percent in the first quarter (Table 2). In just one month China moved from being outside the top ten suppliers of cotton trousers to just missing the number one spot, held by Mexico.

Many Developing Country Suppliers and Workers Losing Ground

And what of developing countries? The early record is mixed. Many have maintained or even increased their exports in the first quarter of 2005, although in most cases their share of the U.S.

U.S. and E.U. Actions to Curb Disruptive Imports

When China acceded to the WTO in December 2001 it agreed to accept restrictions on its textile and apparel exports beyond those normally embodied in WTO agreements. China's protocol of accession contained a provision that permits countries to restrict Chinese imports that "disrupt markets." Valid through 2008, the textile and apparel safeguard permits importing countries to petition to limit imports from China to the level of imports realized in the first 12 of the 14 months preceding the petition's filing. Import restraints would apply immediately, at the time the country requests a WTO consultation with China to discuss the market disruption, and remain in effect for up to 12 months – even without a WTO dispute case being filed.

Since the quotas were lifted, there have been a number of developments in the United States and European Union with respect to safeguards from Chinese imports.

The first occurred even before the quotas were lifted: U.S. industry filed petitions for ten product groups in December 2004. However, the U.S. Court for International Trade ruled that these “threat-based” petitions were invalid.

Then, in April, the U.S. government launched an investigation of imports from China in three categories: cotton trousers, cotton knit shirts, and cotton and man-made fiber underwear. Safeguards on these products are expected shortly, perhaps as early as May. Had the investigation been launched by a petition from the U.S. private sector, rather than the U.S. government, the investigation phase would have been expected to take a few months, with safeguards applied mid-summer.

In the EU, the Commission in March published guidelines establishing early-warning alert levels for each category of Chinese textiles imports that might trigger a safeguard investigation there. The investigation would be accompanied by informal consultations with the Chinese and, if necessary, formal WTO consultations.

On April 24, the European Commission announced that it would launch safeguards investigations on imports from China in seven categories of apparel, and two categories of textiles (as listed in Table 1.) The Commission will have 60 days to conduct the investigation. If the inquiry confirms that imports from China in any of these categories have disrupted the EU market, and if there is not acceptable voluntary action taken by China, then the Commission must start a three-month formal consultation period with China. The Commission could impose safeguard measures to restrict imports from China by September if the formal consultation does not yield acceptable voluntary export restraints.

Table 2

Preliminary U.S. Import Data, First Quarter 2005

Product (million sq. meters)	World Year to Date			China Year to Date			Mexico Year to Date		
	Mar-04	Mar-05	% Chg	Mar-04	Mar-05	% Chg	Mar-04	Mar-05	% Chg
Cotton trousers	611.4	713.2	16.7	6.1	98.1	1520.9	106.6	101.0	-5.2
Underwear	573.2	637.4	11.2	14.9	59.2	297.5	28.0	22.9	-18.1
Knit shirts	502.0	591.0	17.7	3.1	42.2	1257.8	72.1	62.4	-13.4

SOURCE: U.S. Department of Commerce.

import market may have declined (Table 3). A few, such as Mexico and Hong Kong, have seen apparel exports decline in volume and value in the first three months of 2005.

U.S. data for the first two months of 2005 also show that sub-Saharan African countries are beginning to yield to market stress (Table 4). Many had posted strong growth under the quota regime, particularly since the African Growth and Opportunity Act (AGOA) opened U.S. apparel markets to sub-Saharan African countries. But growth has slowed sharply and exports have slumped in several countries, including South Africa and Swaziland. Trade statistics can mask even more important changes. The Government of Lesotho claims that employment in the country's apparel industry has declined by more than 10 percent since January 1, this despite statistics showing export growth. Why the discrepancy? Lesotho's recent export gains have been in items of relatively low labor intensity, such as knit shirts, while production of items that have more than twice the labor content per dollar value of exports–such as trousers–has plummeted. Understanding how the global trade regime is actually affecting an economy requires detailed product- and factory-level analysis.

For now, countries such as Bangladesh, Sri Lanka, and Cambodia are defying the odds, perhaps benefiting from uncertainty surrounding the impact of textile and apparel safeguards against China over the next three years. Other factors also influence buyers' decisions. For instance, in a recent survey by the World Bank's Foreign Investment Advisory Service, garment buyers said that compliance with international labor standards was an important factor in selecting a national sourcing platform. Cambodia, whose access to the U.S. market from 1999 to 2004 was contingent on its record of labor standards compliance, hopes to benefit from filling that niche. It remains to be seen, however, whether it can do so if its producers are not cost competitive. Thus, many producers are simultaneously striving to improve their productivity.

Heightened competition has also cut apparel prices (up to 47 percent in the case of EU imports of pullover sweaters) and increased uncertainty about buyer preferences. Falling prices put pressure on all suppliers to improve productivity and lower costs at all points in the supply chain. With greater uncertainty in the market, few factories have orders placed 12 months in advance, the previous norm, but rather must contend with more limited pipelines of 6 months or less. These pressures are leading to industry consolidation, with larger firms gaining ground. Small- and medium-sized enterprises are having the most difficulty adjusting because they lack production volume to support large U.S. and European buyers, are too small to produce cost-effectively, or are

Table 3
Top Ten Suppliers of U.S. Textile and Apparel Imports, February 2005

	Calendar Years ($ million)		Year-to-Date ($ million)		Change (%)
	2003	2004	Feb-04	Feb-05	
Total Imports	77434	83312	12284	14009	14.1
China	11609	14560	2003	3362	67.9
Mexico	7941	7793	1145	1097	-4.2
India	3212	3633	588	737	25.3
Hong Kong	3818	3959	590	507	-14.0
Canada	3118	3086	519	487	-6.0
Indonesia	2376	2620	445	478	7.2
Vietnam	2484	2720	362	430	18.9
Honduras	2507	2678	347	399	14.9
Pakistan	2215	2546	371	397	6.9
Thailand	2072	2198	314	373	18.7

Source: "Major Shippers Report," February 2005 data, U.S. Department of Commerce.

Table 4
Selected Developing Country Apparel Suppliers to the United States, February 2005

	Calendar Years ($ million)		Year-to-Date ($ million)		Change (%)
	2003	2004	Feb-04	Feb-05	
Central American Suppliers					
Honduras	2507	2678	347	399	14.9
Dominican Republic	2128	2066	246	251	1.9
Guatemala	1773	1959	276	330	19.6
El Salvador	1758	1757	244	251	2.9
Nicaragua	484	595	83	110	32.5
Costa Rica	594	524	71	68	-4.3
Other Asian Suppliers					
South Korea	2567	2580	394	344	-12.7
Taiwan	2185	2104	308	284	-8.0
Bangladesh	1939	2066	325	359	10.7
Philippines	2040	1938	324	300	-7.3
Sri Lanka	1493	1585	259	306	18.2
Cambodia	1251	1442	234	259	10.6
African Suppliers					
Lesotho	393	456	60	74	23.7
Madagascar	196	323	41	44	9.7
Kenya	188	277	41	51	25.7
Mauritius	269	227	43	38	-13.0
Swaziland	141	179	25	31	25.1
South Africa	253	164	25	20	-19.7
Namibia	42	79	7	9	19.3

Source: "Major Shippers Report," February 2005 data, U.S. Department of Commerce.

deficient in other respects, such as quality or customer service.

Thus, even where early trade data do not indicate immediate declines, China's export prowess is already hurting most developing countries. In African countries such as Lesotho and Swaziland thousands of apparel workers–10 percent or more of the local manufacturing work force–have been unable to find work since being laid off early in 2005. Central American and Caribbean authorities are reporting that laid off workers are not finding jobs in other apparel firms, as was common in the past.

Compounding the loss of apparel jobs is the lack of export diversification in many developing countries that have relied on apparel for export earnings. And countries that relied on export quotas on their competitors to make themselves "competitive" in the U.S. and EU markets are suffering the most–such as Mongolia, Mauritius, Nepal, and many of the small Pacific island nations. The net short- and medium-term effects for many developing countries will likely be a continued loss of manufacturing sector jobs. Countries that have managed to move up the rungs of the development ladder, such as Thailand, the Philippines, and South Africa, can count on export-producing medium, heavy, high-tech, and service industries to absorb the slack.

In less diversified economies, apparel workers have few employment alternatives. Many of these workers are women supporting several family members. In Cambodia, for example, workers typically send one-third to one-half of their earnings to rural households. Thus for every job lost, several people fall deeper into poverty. In some countries, young female apparel workers have become accustomed to semi-independent lifestyles in urban settings, or have become the heads of their households since they are the primary income earners. Loss of income may force them to either return to rural towns or resort to participation in sexual trafficking to make a living in an urban setting.

Elements of Success in the New Era

China and several other first-tier suppliers, such as India and Pakistan, will continue to dominate textile and apparel markets because of their strong backward linkages to raw materials and inputs and forward linkages to marketing channels. Even so, second-tier suppliers, such as those that enjoy preferential duty rates in the United States or European Union, may still be successful in exporting to these large markets, particularly in product lines where non-preferential suppliers face high tariffs of 20-30 percent. Indeed, the desire to anchor such preferential access in binding reciprocal trade agreements not subject to Congressional approval has persuaded some developing countries to seek free trade agreements with the United States or Economic Partnership Agreements with the EU.

But a strategy based on preferential access alone will not likely bring success. Every country and producer must master the determinants of competitiveness. In the apparel industry, this means the ability to manage input sourcing strategies, improve productivity and reduce costs, and provide a "full-package" of services, ranging from product design, to locating inputs, manufacturing, packaging, advertising, and handling shipping and other aspects of logistics.

How USAID is Assisting Vulnerable Countries

USAID is helping countries adjust to the post-quota world through a wide range of interventions.

Analyzing Country Risk. Assessments of how and to what extent the end of the global quota regime will affect employment and exports have helped a number of countries better prepare for the human and revenue impact. USAID has funded such assessments in Indonesia, Bolivia, the Dominican Republic, Vietnam, and Cambodia, among others.

Developing National Adjustment/Competitive Strategies. In the Dominican Republic, USAID supported a study that evaluated Dominican interests in a free trade agreement with the United States–after competitors in Central America had launched negotiations with the United States that would have put Dominican producers at a competitive disadvantage unless they joined the negotiations. The study mobilized government, industry, and public support for the negotiation of an FTA with the United States. After high-level briefings by USAID and its contractor, Nathan Associates Inc., the Dominican Republic requested that the U.S. government include the country in the negotiations. The negotiations were concluded successfully within three months.

In Mozambique, USAID helped the Ministry of Industry and Commerce (MIC) develop a textile and apparel sector strategy that then became part of the Government's five-year development plan. The strategy focused on cotton and ginning, spinning and weaving (textiles), and apparel production. It recommended that Mozambique continue exporting raw cotton and improve the business environment to attract investors wanting to produce apparel to take advantage of EU and US tariff preferences.

In Indonesia, USAID funded a trade adviser to work with the Indonesian Textile Association, seminars on developments in global textile and apparel trade, a case study of how rules of origin divert textile exports, and an analysis of how third-party free trade agreements may affect Indonesian textile and apparel exports.

USAID-sponsored briefings of the Ministers of Trade and Economy summarized analysis of the implications of quota elimination for Indonesian textile and apparel production and trade and outlined possible policy responses

Helping Address Labor and Productivity Issues. USAID is investigating productivity issues in Cambodia's apparel sector. It is assisting the Cambodian garment industry by addressing labor rights and working conditions, and by implementing a firm-level benchmarking survey of management and production techniques. Analysis of survey data to identify best practices and areas for improvement will be completed midyear. The team is building Cambodian awareness of labor productivity; that poor working conditions hurt, not help, the bottom line. They have also trained local researchers in labor productivity benchmarking, a skill they should be able to use to track future progress.

In the Dominican Republic, USAID is working with a public-private alliance to develop a pre-production training facility so workers in small- and medium-sized apparel firms have the skills necessary to compete in the post-quota world.

In Madagascar, USAID supported a competitiveness audit of the apparel sector, production of an export market guide for textile and apparel producers, and outside funding for Malagasy exporters to attend a convention matching buyers with suppliers.

In Zambia, USAID helped the government draft and put in place the AGOA source-of-origin visa regulations and system for Zambia's textiles and apparel exports to the United States. It also sponsored work with firms to help them understand how to comply with AGOA requirements, as well as studies for the government on strategies for the Zambian textile and apparel industry to optimize opportunities under AGOA.

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Endnotes

[1]Exports of textiles and apparel exceed 50% of merchandise exports in Lesotho, Bangladesh, Cambodia, Haiti, Nepal, Pakistan, Sri Lanka, Honduras, Tunisia, Dominican Republic, Jordan, Mauritius, and El Salvador. Source: Central Intelligence Agency, Textiles and Apparel Exports: A Trade Profile (Unclassified), 2004 and WTO, World Trade Statistics 2004.

[2]Calculations based on 2003 data from WTO, op. cit., for combined trade in textiles and clothing. Data for intra-EU trade have been excluded.

[3] The United States released trade data in April 2005 for the first two months of the year. In addition, it released selected data on apparel imports in specific 3-digit categories, on a volume but not a value basis. Note that this analysis uses both sets of data, even though there are important differences between the volume and value trends. A fuller analysis will be possible as additional data are released in the next few months.

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